



Latin American Weekly Spotlight

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Dresdner Bank Lateinamerika AG
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A company of the **Allianz Group**

Argentina: Initial talks with the IMF

Bolivia: Parliament refuses president's resignation

Brazil: Probably last interest hike of the year on Wednesday

Chile: GDP growth slows in January but remains high

Ecuador: World Bank approves credit of US\$ 100 mn

Colombia: Lower public budget deficit in 2004

Mexico: Another monetary tightening in March?

Peru: Export boom continues

Venezuela: New sovereign issue of € 1 bn

Argentina

Economy Minister Lavagna held preliminary talks with the IMF in Washington last week regarding a new stand-by program. Argentine press reports mention that the debate is centered on the renegotiation of the contracts with the utility services providers and the related issue of the regulated retail utility price adjustments that remain frozen since the outbreak of the crisis in early 2002. ---- Consumer confidence, measured at the beginning of March, rose another 4.4% (mom), thus beating our expectation of an only modest increase.

Outlook: According to the local press the central bank is preparing to tighten monetary conditions by lowering foreign exchange interventions and stepping up sterilization. This would not come as a surprise as inflation has been picking up for some months now, while the central bank (and Banco Nación) had continued to intervene in the foreign exchange market, creating inflationary pressure. We remain skeptical whether the central bank will have enough clout to push through a tightening while the Government appears to favor a weaker peso to foster growth. ----- President Kirchner made some waves as he called for a national boycott of Shell Argentina following an announcement by the company to increase prices. It seems that Argentina's government has no intentions (even after the partially concluded debt restructuring) to improve relations with international business. ----- Industrial production (Wednesday) is likely to post another growth rate in excess of 7% (yoy) in February.

Bolivia

After the adoption of the hydrocarbon bill (royalties of 18 % to a maximum of 32 %) there were strikes and blockades everywhere in the country which led to a national crisis. President Mesa, not willing to send troops against the blockades, offered his resignation after the leaders of the opposition did not agree on negotiations. As the President's resignation would have reduced the

country's stability and governability, Parliament refused the resignation and agreed on an alliance with the president to overcome the crisis. The most important opposition party, Movimiento al Socialismo (MAS) of the local politician Evo Morales, refused the resignation of the President but did not step in to the alliance. The MAS is still trying to achieve their claims (royalties of 50% for gas extraction) by blockades of the main roads.

Brazil

The industrial production increased by 5.9% yoy in January, in line with our expectation. In mom terms there was a reduction of 0.5% (sa) following an increase of 1.2% in December. All in all this news confirms our view that the expansion is slowing down and that industrial production will grow by 5 % this year after 8 % in 2004. ----- The IPCA inflation in February accelerated only marginally from 0.58% to 0.59% mom. In yoy terms this corresponded to an inflation rate of 7.4%. ----- The minister of industry and trade, Furlan, is optimistic with respect to the development of Brazilian exports. He is forecasting US\$ 120 bn by 2006 (2004: US\$ 96.5 bn). We are somewhat more skeptical (forecast DBLA: US\$ 110 bn) as bottlenecks in the infrastructure should hinder such significant increases. However, if commodity prices should remain at current levels or even rise further, the official export forecast is not that unrealistic.

Outlook: On Wednesday the central bank may raise its key interest rate for the last time this year, by 50 basis points. We expect the inflation rate to reach 6.3% by year-end. This would be within the upper tolerance limit of inflation (7%), though significantly higher than the actual inflation target of 5.1%. ----- Retail sales have probably increased by 7% yoy in January after 11.4% in December (in real terms). We expect non-durable goods to have registered over-average increases reflecting the better employment situation as well as higher wages (Tuesday). ----- This week, speculation

about a cabinet reshuffle will continue. Reportedly the ministers of social security, health, planning, communication as well as of national integration will be affected. In addition the current chief of staff, José Dirceu, may take over the ministry of political coordination, replacing Aldo Rebelo who could become government leader in the lower house.

Chile

The monthly GDP proxy Imacec rose 6.2% yoy in January, below our own forecast of 7%. Possibly the working day effect had a stronger impact than expected. Nevertheless the seasonally adjusted mom gain of 0.3% in January confirms that the economy is continuing to expand.

Ecuador

The World Bank approved a loan to Ecuador worth US\$ 100 mn last week. The credit is the first of two US\$ 100 mn World Bank disbursements planned for this year. A similar amount is scheduled to be disbursed by the IADB. Together with a further US\$ 80 mn from the CAF, the government expects to receive US\$ 480 mn from the multilateral institutions this year. ----- President Gutierrez sent a new streamlined referendum proposal to Congress, relating to the thorny question of how Supreme Court judges should be selected. This follows the controversy created at the end of last year, when (at Gutierrez' request) Congress replaced existing members of the Court, who were deemed to be allied to opposition parties, by new judges. The debate will be closely scrutinized, as it might give an indication about Gutierrez' ability to hold together his fractious coalition. - ----- Tax revenues recorded another strong growth rate of 23% yoy in February. This follows an increase of 11% in January. The official goal is to boost revenues in 2005 by just over 6%

Colombia

The ministry of finance announced last week that last year's public budget deficit was only 1.2% of GDP, lower than the previously announced 2.3% of GDP. This was due to higher oil revenues and taxes and a restructuring of public spending in the regional governments. Yet the central government's budget deficit, at 5.6% of GDP, was higher than expected (4.5%). This year we have to consider additional spending (deficit of the public retirement system, investment programs of the government) and lower income due to the failure of the tax reform. Thus we are continuing to expect a public budget deficit of 2.8% of GDP. ----- The high demand for non-traditional goods in the Andean region led to a

trade surplus of US\$ 900 mn last year in Colombia; non-traditional exports to Venezuela rose by 135%. Due to the declining oil production, lower growth forecasts for the Andean region and an expected lower global demand, the rise in exports of goods should slow down to 5% this year (after 18% in 2004).

Outlook: Today GDP data for the fourth quarter 2004 will be announced. Growth is expected to have accelerated after a very weak rate of 2.4% in the third quarter. We are expecting GDP growth of 3.6% for 2004 as a whole.

Mexico

In December 2004, gross fixed investment grew by 11.9% yoy, which was slightly higher than expected. ---- - Consumer prices only increased little in March (0.33% mom). The annual inflation rate fell from 4.5% to 4.3%. However, core inflation at 0.4% was still higher than desired by the Mexican central bank. Nevertheless, the central bank left the "corto" unchanged at the regular bi-weekly monetary policy meeting on Friday. We expect Banxico to tighten monetary policy again on March 23 (the next regular meeting), one day after the US Fed most likely has raised policy rates again.

Outlook: In January, industrial production probably rose by 4.5% yoy. Demand from the US has continued to be buoyant in the first quarter. We expect the Mexican economy to slow down in the second half of 2005 and forecast a growth rate of 3.7% for the whole year.

Peru

In January there was a high trade balance surplus of US\$ 333 mn due to high exports. Especially China is gaining importance as a trading partner and recently displaced Great Britain as the second largest importer of Peruvian products with a share of 12% of total exports. This year exports are expected to remain on a high level even though export growth will be lower than in 2004.

Outlook: On Tuesday growth data for January will be published. Especially the construction sector, electricity production and public investment should have driven growth, which is expected at 4.5% yoy.

Venezuela

Encouraged by a relative good performance of Latin debt in the world markets and on the back of favorable expectations due to the recent surge in world oil prices,

the Venezuelan government issued a 10-year bond with a volume of € 1.0 bn. Part of the funds will be used to meet obligations of € 500 mn due on March 23. The remaining amount could be used to finance projects intended to improve infrastructure affected by heavy rains and flooding around the country. ----- Figures released by the Finance Ministry last week show that the Venezuelan debt stood at US\$26.4 bn at the end of 2004. While our own estimate, at US\$ 32 bn, is clearly higher, this still represents only 83 % of exports of goods and services which is relatively low.

Outlook: The government of Venezuela is pushing parliament to approve the exchange law, which is ex-

pected to have an effect on the parallel exchange market, by the end of the week. The law provides for imprisonment of people who are engaged in this market, and could increase the gap between the official and the parallel exchange rate. It is worth noting that last week's 12% devaluation of the Bolivar has only had a minimal effect on the parallel market. As Cadivi, the foreign exchange authority, has increased US\$ sales and further government debt issues are to be expected, the gap between the two exchange rates should not widen substantially.

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Abbreviations:

mom = month-on-month
qoq = quarter-on-quarter
yoy = year-on-year
ytd = year-to-date
s.a. = seasonally adjusted
n.s.a. = not seasonally adjusted

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Exchange rate	date	last	one week	one month	one year	end 2004	ytd-change, %	end 2005f
Argentina	14.03.2005	2.91	2.93	2.91	2.91	2.97	2.0	3.0
Brazil	14.03.2005	2.74	2.68	2.58	2.90	2.66	-3.1	2.9
Mexico	14.03.2005	11.09	11.02	11.16	11.01	11.15	0.5	12.0
Chile	14.03.2005	588	585	567	607	556	-5.4	580
Colombia	14.03.2005	2341	2320	2336	2657	2355	0.6	2398
Peru	14.03.2005	3.26	3.26	3.26	3.46	3.28	0.7	3.3
Venezuela	14.03.2005	2147	2147	1918	1918	1918	-10.7	2200

EMBI+ Spread								
bps	date	last	one week	one month	one year	end 2004	ytd-change, bps	
Argentina	14.03.2005	5027	5071	4909	5577	4707	320	
Brazil	14.03.2005	406	366	402	559	383	23	
Mexico	14.03.2005	153	143	156	187	167	-14	
Ecuador	14.03.2005	614	597	636	731	691	-77	
Colombia	14.03.2005	340	326	355	413	333	7	
Peru	14.03.2005	210	195	238	349	220	-10	
Venezuela	14.03.2005	421	415	466	692	412	9	

Benchmark interest rates							ytd-change	
%	date	last	one week	one month	one year	end 2004	%-points	end 2005f
Argentina, Overnight	11.03.2005	2.31	2.31	2.31	1.38	2.31	0.0	5.0
Brazil Selic	14.03.2005	18.75	18.74	18.26	16.26	17.75	1.0	17.8
Mexico Cetes 28 days	14.03.2005	9.36	9.26	9.11	6.67	8.61	0.7	8.7
Chile 90 days, PDBC	08.03.2005	2.87	2.81	3.03	1.63	2.24	0.6	3.8
Colombia Overnight	10.03.2005	6.43	6.40	6.39	7.12	6.24	0.2	7.5
Peru Overnight	10.03.2005	2.88	2.93	3.00	2.48	3.03	-0.2	4.0
Venezuela deposits 30 days	09.03.2005	11.50	10.16	11.23	10.70	11.92	-0.4	14.5

Foreign exchange reserves								
US\$, bn	date	last	one week	one month	one year	end 2004	ytd-change	end 2005f
Argentina	11.03.2005	21.0	21.0	20.5	12.1	19.6	1.4	21.5
Brazil	09.03.2005	62.7	60.1	55.6	52.5	52.8	9.9	62.0
Mexico	04.03.2005	70.7	71.0	71.6	69.8	71.6	-0.9	65.0
Chile	31.01.2005	15.6	na	16.0	16.0	16.0	-0.4	16.5
Colombia	31.01.2005	13.7	na	13.5	11.2	13.5	0.2	14.5
Peru	31.12.2004	12.6	na	12.3	10.2	10.2	2.4	12.5
Venezuela (FEM&Gold incl.)	09.03.2005	25.3	24.7	24.6	22.7	24.2	1.1	26.6

Economic activity				Inflation				GDP 2003, US\$ bn
GDP (yoy, %)	2003	2004e	2005f	% , year end	2003	2004	2005	
Argentina	8.8	8.8	6.0		3.7	6.1	9.0	127
Brazil	0.5	5.0	3.9		9.3	7.6	6.3	495
Mexico	1.3	4.4	3.3		4.0	5.2	3.7	626
Chile	3.3	5.9	5.3		1.1	2.4	2.9	72
Colombia	3.8	3.6	3.8		6.5	5.5	5.7	80
Ecuador	2.5	7.0	3.5		6.1	1.9	1.5	27
Peru	4.0	5.0	4.7		1.8	3.5	3.0	61
Venezuela	-7.7	17.3	6.0		27.1	19.2	17.2	86

Public sector	Budget balance, % of GDP		Public debt, % of GDP		Amortization, US\$ bn		Gr. financing needs, US\$ bn	
	2003	2004e	2003	2004e	2003	2004e	2003	2004e
Argentina	1.3	4.2	140	123	19.8	19.8	19.1	16.1
Brazil*	-5.2	-2.7	56	52	94.2	84.3	72.1	68.4
Mexico**	-0.6	-0.3	28	27	23	30	26	32
Chile***	-0.4	2.4	13	12	0.8	0.8	1.4	-1.2
Colombia	-2.8	-2.3	62	58	10.6	10.0	12.8	12.3
Peru	-1.9	-1.3	48	46	1.1	1.3	2.3	2.2
Venezuela	0.2	0.5	45	34	10.8	9.0	10.7	8.5

* Amortisations only federal debt, including short term debt

** Amortisations without Cetes

*** debt, amortization and financing needs: central government only

External Sector 2004e									
	External debt		Debt service		Current account		Trade Balance	FDI (net)	Import cover
	% of exports	s.t., % of total	US\$ bn	% of exports	% of GDP	US\$ bn	US\$ bn	US\$ bn	months
Argentina	365	39	32.3	78	2.7	4.0	13.3	0.7	6.3
Brazil	203	12	65.6	59	2.0	11.7	33.7	18.2	6.2
Mexico	79	21	37.5	18	-1.6	-10.4	-8.0	15.0	3.2
Chile	128	18	7.2	21	1.5	1.4	9.0	5.0	5.6
Colombia	233	11	7.3	44	-1.3	-1.1	1.1	2.0	7.0
Ecuador	17	9	1.4	3	0.2	0.7	6.8	0.5	1.1
Peru	199	10	3.7	26	0.1	0.1	2.6	2.0	9.8
Venezuela	83	10	8.3	21	14.0	14.6	22.1	1.3	9.0